

## Q & A

### **Q. How does the trading scandal in the mutual fund industry affect me?**

**A.** If you've been following the recent investigations by the New York State Attorney General's Office and the Securities and Exchange Commission, you may have concerns, understandably, about your mutual fund holdings. The allegations against a number of mutual fund companies involve after-hours trading and pricing policy violations that are unfair for the long-term investor.

The Plan's recordkeeper, T. Rowe Price, and the other mutual funds within the Plan have given assurances that policies are in place to protect the best interest of long-term shareholders. The Stable Return Fund is not a mutual fund. It is a separately and privately managed fund specifically for the State of Illinois Deferred Compensation Plan. Rest assured, we will continue to monitor the situation and take the necessary steps to put the participant's interest first.

Along these lines, we are making efforts to ensure policies on excessive trading within the Plan's fund lineup are enforced. Excessive trading is defined as when an individual buys and sells shares of mutual funds for short-term gain. The practice of market timing does not serve the interests of long-term shareholders because it may increase the expenses of a mutual fund and impact a manager's ability to manage cash flow. Each fund has their own trading policy listed in their respective prospectus. Exchange transactions in the Deferred Compensation Plan are being monitored for excessive trading and compliance with those trading policies.

### **Deferred Compensation Assets Reach \$2 Billion Milestone**

The assets in the Deferred Compensation Plan crossed over the \$2 billion dollar mark in November of 2003. Previous milestones for the Plan assets include: \$1 billion in assets in July of 1997, \$0.5 billion in 1994.

### **Investment Review Process Begins**

The Deferred Compensation Plan is reviewing responses to a recently released RFP to hire an independent consultant. The purpose is to provide an analysis of the current fund's performance and the overall structure of the investment option lineup. The consultant will determine if there are any redundancies or gaps in the Plan's structure by considering the style, objective, and the optimal number of investment options for a plan while allowing for proper diversification. You will be kept abreast of any developments in future newsletters.

### **When to Invest in Stocks**

The market goes through cycles. When stock values rise over a period of time, it is called a bull market. When stock prices fall by 20% or more over a period of time, it is called a bear market. Since World War I, there have been only 10 major bear markets. Over time, the market has risen significantly, always going on to beat its previous high. So how do you know when to invest in stocks?

### **Timing the market is difficult at best**

Accurately predicting a bear or bull market is impossible. That's because the stock market's health doesn't always reflect the state of the economy. For example, when the U.S. was in a recession during the Gulf War, the bull market picked up steam. And, conversely, the market crashed in October 1987 while the economy was in a period of strong growth.

The start of a bear or bull market is usually clear only in hindsight. That means it's impossible to time the market and choose only investments that go up. Even investment experts can't always buy low and sell high.

(continued on page 2)





## When to Invest in Stocks

(continued from page 1)

### Why you don't need to time the market

Basing your investment decisions on the market's next move isn't always a good idea. And there are two good reasons for this.

- First, your investment program should be long term — governed not by the market, but by your own individual needs. That means you should pick a strategy that you are comfortable with and stick to it. As you near retirement or when your financial circumstances change, you may want to adjust your investments.
- Secondly, your retirement plan money is invested systematically, the same amount of your income every pay period, and this can help make the most of a bear or bull market. During a bear market, stock prices fall. Because you invest regularly, you'll be able to accumulate more shares than you could have during a rising market. In a bull market, when prices are rising, you'll accumulate fewer shares.

Accumulating more shares when prices drop and fewer shares when prices rise can help to lower your average cost per share. This system — called dollar cost averaging — doesn't guarantee a profit or protect against a loss in the market.

### Develop a strategy and stick with it

If you have at least 10 years until you'll need your retirement savings, you have time to ride out the inevitable ups and downs of the stock market. Remember, historically, the stock market has always recovered from declines by reaching new highs. The key to successful investing is patience. While there are no guarantees in investing, most stock investors have found a consistent long-term strategy to be the most rewarding.

## Income Tax Information

### Currently deferring participants

If you actively defer into the Plan, your taxable income is reduced thanks to your participation in the Deferred Compensation Plan. You will only report the wages shown in Box 1 of your W-2 statement on your income tax form. Box 1 wages are reduced by the total amount of your 2003 deferrals and any other tax-deferred and tax-exempt deductions.

Your W-2 statement will reflect contributions to the Deferred Compensation Plan (457). If the "Deferred Compensation" box in the lower right-hand corner of the W-2 is marked "X," it means you contributed to the Deferred Compensation Plan in 2003; the amount of your deferral is indicated in Box 12 with a "G" coding. Remember, you do not enter your deferred compensation anywhere on your income tax form.

### For participants on payout

If you received a payment from your account during the 2003 tax year, you will receive a separate 1099-R form from our recordkeeper, T. Rowe Price, by January 31, 2004. Box 2a of your 1099-R will list the taxable amount of your distribution(s) you received during 2003 and should be entered on line 16b of your 1040 form. Box 7 of your 1099-R is the distribution code for the type of distribution received. A code of "7" in this box indicates a normal distribution for a participant over age 59½. If you were under age 59½, Box 7 will be coded with a "2" to indicate that your 457 plan distributions are not subject to the 10% additional tax on early distributions.

For federal income tax purposes, your deferred compensation plus any earnings, is taxable as ordinary income when it is distributed. Deferred compensation distributions are reported along with other earnings on Line 7 of your income tax Form 1040. Deferred compensation distributions are not subject to State of Illinois income tax. Report the distribution in the "Federally Taxed Retirement and Social Security" subtraction section, Line 5 of your Illinois return.

## Administrative Fee Waived for 2004

The Deferred Compensation Program is pleased to announce that there will be no administrative fee charged to participants for the 2004 tax year. The Plan's costs, such as recordkeeping, consultant fees, telephone, printing, and mailing must be shared by the participants. The legislated fee allows for an asset charge levied against the accounts of each participant, with an annual rate not to exceed a cap of 1% per year. The fee rate currently stands at .15%, with a maximum cap of \$45, well below the mandated cap. The fee has been reduced twelve times over the last two decades.

## Telephone Numbers

### Deferred Compensation:

Plan Rules/Options Information

800.442.1300

217.782.7006

TDD/TTY: 800.526.0844

Internet:

[www.state.il.us/cms/employee/defcom](http://www.state.il.us/cms/employee/defcom)

### Recordkeeper:

T. Rowe Price Retirement Plan Services Account Value

Information and Investment Changes: 888.457.5770

TDD/TTY: 800.521.0325

Internet Access: 800.541.3022

Internet: [rps.troweprice.com](http://rps.troweprice.com)

### Fund Performance:

Columbia Acorn Fund: 800.922.6769

Ariel Fund: 800.292.7435

Fidelity Funds: 800.544.8888

Provident Investment Counsel: 800.618.7643

Stable Return Fund/PRIMCO: 800.572.3819

T. Rowe Price Funds: 800.922.9945

Vanguard Funds: 800.523.8066

Wells Fargo: 866.561.1153

## Online Statements

### -Coming January 2004

Your Deferred Compensation Plan Quarterly Statements are valuable documents that can help you manage your retirement accounts. Yet keeping statements safe and organized can be a challenge. Therefore, we are announcing a new feature by T. Rowe Price, the Plan's recordkeeper, that will help you get organized by making it easy and convenient for you to:

- Get statement information wherever there's Internet access
- See your statement as soon as it's ready, without having to wait for the mail
- Receive notification by e-mail when your new statement is ready (once you've registered your e-mail address on the *my*RetirementPlan Web site)
- Control clutter with online filing and storage for up to seven years—including requested Statements on Demand

This new service is being provided to you at no additional charge and will be available in January of 2004. You would need to sign up through the recordkeeper's Web site at [rps.troweprice.com](http://rps.troweprice.com). If you have not previously signed up for account access, you can do so by calling 1-800-541-3020.

We realize that many participants prefer paper statements and, therefore, will continue to mail statements to all participants.

## Income and Price Information

### Fourth Quarter 2003

Transaction Date	Vanguard Bond Index	T. Rowe Price New Income <sup>1</sup>	Fidelity Puritan <sup>2</sup>	Fidelity <sup>3</sup>	Vanguard Inst. Index <sup>4</sup>	Wells Fargo Lg. Co. Growth	Columbia Acorn <sup>5</sup>	Ariel	T. Rowe Price Int'l Stock <sup>6</sup>	PIC Small Cap Growth
10/01/03	\$10.41	\$9.08	\$17.25	\$25.60	\$93.23	\$42.79	\$20.11	\$41.70	\$10.44	\$14.34
10/02/03	\$10.38	\$9.06	\$17.26	\$25.68	\$93.42	\$42.83	\$20.22	\$41.92	\$10.49	\$14.48
10/03/03	\$10.30	\$8.98	\$17.32	\$25.91	\$94.30	\$43.51	\$20.48	\$42.26	\$10.60	\$14.85
10/06/03	\$10.32	\$9.01	\$17.39	\$26.01	\$94.71	\$43.69	\$20.61	\$42.37	\$10.66	\$15.00
10/07/03	\$10.28	\$8.98	\$17.43	\$26.12	\$95.17	\$44.07	\$20.71	\$42.59	\$10.68	\$15.13
10/08/03	\$10.29	\$8.98	\$17.39	\$25.99	\$94.70	\$43.72	\$20.63	\$42.33	\$10.64	\$15.02
10/09/03	\$10.27	\$8.96	\$17.44	\$26.13	\$95.16	\$44.07	\$20.77	\$42.59	\$10.74	\$15.17
10/10/03	\$10.29	\$8.99	\$17.46	\$26.13	\$95.10	\$44.03	\$20.77	\$42.61	\$10.84	\$15.13
10/13/03	\$10.28	\$8.98	\$17.57	\$26.29	\$95.77	\$44.33	\$21.08	\$43.00	\$10.87	\$15.35
10/14/03	\$10.25	\$8.95	\$17.61	\$26.39	\$96.15	\$44.41	\$21.19	\$43.04	\$10.88	\$15.47
10/15/03	\$10.23	\$8.93	\$17.58	\$26.38	\$95.92	\$44.43	\$21.06	\$42.96	\$10.88	\$15.32
10/16/03	\$10.20	\$8.92	\$17.59	\$26.44	\$96.22	\$44.43	\$21.16	\$43.10	\$10.89	\$15.39
10/17/03	\$10.22	\$8.94	\$17.50	\$26.17	\$95.24	\$43.76	\$20.93	\$42.68	\$10.80	\$15.06
10/20/03	\$10.23	\$8.95	\$17.54	\$26.29	\$95.73	\$44.03	\$20.98	\$42.83	\$10.88	\$15.10
10/21/03	\$10.23	\$8.95	\$17.52	\$26.31	\$95.85	\$44.16	\$21.12	\$42.89	\$10.88	\$15.29
10/22/03	\$10.27	\$8.99	\$17.34	\$25.93	\$94.42	\$43.29	\$20.83	\$42.02	\$10.74	\$14.92
10/23/03	\$10.25	\$8.97	\$17.37	\$26.03	\$94.73	\$43.39	\$20.74	\$41.88	\$10.54	\$14.70
10/24/03	\$10.30	\$9.01	\$17.36	\$25.86	\$94.29	\$43.08	\$20.68	\$41.55	\$10.58	\$14.64
10/27/03	\$10.27	\$8.99	\$17.37	\$25.87	\$94.50	\$43.26	\$20.89	\$41.95	\$10.63	\$14.84
10/28/03	\$10.31	\$9.01	\$17.53	\$26.29	\$95.93	\$44.28	\$21.19	\$41.97	\$10.78	\$15.26
10/29/03	\$10.28	\$8.99	\$17.55	\$26.36	\$96.07	\$44.28	\$21.39	\$42.29	\$10.76	\$15.50
10/30/03	\$10.25	\$8.97	\$17.55	\$26.38	\$95.99	\$44.08	\$21.36	\$42.29	\$10.80	\$15.47
10/31/03	\$10.27	\$8.98	\$17.57	\$26.46	\$96.33	\$44.20	\$21.34	\$42.28	\$10.66	\$15.38
11/03/03	\$10.24	\$8.96	\$17.65	\$26.65	\$97.09	\$44.73	\$21.56	\$42.84	\$10.69	\$15.71
11/04/03	\$10.26	\$8.98	\$17.63	\$26.54	\$96.57	\$44.36	\$21.60	\$42.86	\$10.78	\$15.71
11/05/03	\$10.24	\$8.96	\$17.58	\$26.51	\$96.46	\$44.25	\$21.64	\$42.86	\$10.67	\$15.70
11/06/03	\$10.21	\$8.93	\$17.60	\$26.69	\$97.03	\$44.46	\$21.71	\$43.18	\$10.65	\$15.77
11/07/03	\$10.19	\$8.92	\$17.58	\$26.58	\$96.61	\$44.29	\$21.74	\$43.28	\$10.78	\$15.80
11/10/03	\$10.19	\$8.92	\$17.51	\$26.39	\$96.06	\$43.92	\$21.56	\$42.82	\$10.70	\$15.49
11/11/03	\$10.19	\$8.92	\$17.48	\$26.33	\$96.01	\$43.95	\$21.45	\$42.74	\$10.59	\$15.31
11/12/03	\$10.22	\$8.95	\$17.61	\$26.63	\$97.14	\$44.63	\$21.81	\$43.23	\$10.78	\$15.71
11/13/03	\$10.28	\$9.00	\$17.66	\$26.60	\$97.13	\$44.60	\$21.88	\$43.27	\$10.82	\$15.79
11/14/03	\$10.31	\$9.02	\$17.59	\$26.36	\$96.41	\$43.88	\$21.68	\$42.92	\$10.84	\$15.50
11/17/03	\$10.33	\$9.04	\$17.51	\$26.22	\$95.79	\$43.48	\$21.42	\$42.66	\$10.60	\$15.29
11/18/03	\$10.33	\$9.04	\$17.41	\$26.01	\$94.92	\$42.86	\$21.31	\$42.59	\$10.65	\$15.15
11/19/03	\$10.30	\$9.02	\$17.46	\$26.16	\$95.69	\$43.23	\$21.37	\$42.73	\$10.63	\$15.23
11/20/03	\$10.33	\$9.04	\$17.41	\$25.95	\$94.89	\$42.80	\$21.32	\$42.66	\$10.60	\$15.24
11/21/03	\$10.33	\$9.04	\$17.44	\$25.99	\$95.04	\$42.94	\$21.37	\$42.82	\$10.65	\$15.27
11/24/03	\$10.30	\$9.01	\$17.55	\$26.41	\$96.58	\$43.97	\$21.70	\$43.56	\$10.74	\$15.70
11/25/03	\$10.32	\$9.03	\$17.63	\$26.49	\$96.76	\$43.74	\$21.83	\$43.85	\$10.74	\$15.76
11/26/03	\$10.29	\$9.01	\$17.70	\$26.62	\$97.19	\$44.03	\$21.92	\$43.90	\$10.85	\$15.83
11/28/03	\$10.26	\$8.98	\$17.69	\$26.63	\$97.17	\$44.02	\$22.03	\$43.90	\$10.90	\$15.91
12/01/03	\$10.22	\$8.96	\$17.81	\$26.95	\$98.27	\$44.64	\$22.32	\$44.58	\$11.08	\$16.19
12/02/03	\$10.23	\$8.97	\$17.83	\$26.85	\$97.95	\$44.30	\$22.26	\$44.53	\$11.12	\$16.16
12/03/03	\$10.22	\$8.96	\$17.84	\$26.84	\$97.81	\$44.06	\$22.07	\$44.33	\$11.16	\$15.87
12/04/03	\$10.24	\$8.98	\$17.91	\$26.98	\$98.27	\$44.40	\$22.01	\$44.28	\$11.15	\$15.68
12/05/03	\$10.32	\$9.04	\$17.88	\$26.75	\$97.52	\$43.81	\$21.87	\$44.05	\$11.13	\$15.47
12/08/03	\$10.29	\$9.02	\$17.98	\$26.96	\$98.24	\$44.08	\$21.99	\$44.10	\$11.08	\$15.50
12/09/03	\$10.26	\$8.99	\$17.92	\$26.81	\$97.40	\$43.43	\$21.77	\$43.72	\$11.12	\$15.17
12/10/03	\$10.28	\$9.01	\$17.90	\$26.75	\$97.31	\$43.48	\$21.60	\$43.40	\$10.98	\$14.95
12/11/03	\$10.31	\$9.03	\$18.05	\$27.06	\$98.44	\$44.19	\$21.95	\$44.05	\$11.06	\$15.36
12/12/03	\$10.31	\$9.03	\$17.88	\$27.16	\$98.71	\$44.18	\$22.10	\$44.27	\$11.11	\$15.45
12/15/03	\$10.30	\$9.02	\$17.83	\$27.09	\$98.15	\$43.58	\$21.80	\$43.94	\$11.12	\$15.11
12/16/03	\$10.32	\$9.04	\$17.93	\$27.24	\$98.81	\$43.87	\$21.88	\$44.01	\$11.14	\$15.04
12/17/03	\$10.34	\$9.05	\$17.96	\$27.29	\$98.94	\$43.88	\$21.96	\$44.01	\$10.98	\$15.09
12/18/03	\$10.35	\$9.07	\$18.12	\$27.61	\$100.12	\$44.57	\$22.23	\$44.33	\$11.12	\$15.41
12/19/03	\$10.36	\$9.07	\$18.15	\$27.53	\$100.08	\$44.31	\$22.20	\$44.49	\$11.12	\$15.39
12/22/03	\$10.34	\$9.06	\$18.23	\$27.66	\$100.47	\$44.43	\$22.25	\$44.63	\$11.14	\$15.38
12/23/03	\$10.30	\$9.03	\$18.23	\$27.70	\$100.27	\$44.63	\$22.40	\$44.80	\$11.18	\$15.51
12/24/03	\$10.33	\$9.06	\$18.23	\$27.66	\$100.09	\$44.56	\$22.38	\$44.61	\$11.23	\$15.44
12/26/03	\$10.35	\$9.07	\$18.27	\$27.71	\$100.26	\$44.59	\$22.43	\$44.74	\$11.25	\$15.51
12/29/03	\$10.32	\$9.05	\$18.42	\$28.05	\$101.54	\$45.20	\$22.68	\$45.27	\$11.39	\$15.74
12/30/03	\$10.30	\$9.04	\$18.43	\$28.02	\$101.57	\$45.22	\$22.71	\$45.42	\$11.43	\$15.80
12/31/03	\$10.31	\$9.05	\$18.47	\$28.08	\$101.78	\$45.27	\$22.56	\$45.12	\$11.49	\$15.68

<sup>1</sup> New Income earnings are calculated using daily income accruals. They credit earnings to the first working day of the following month. Therefore, 33 days were credited for October; 28 days were credited for November; and 32 days were credited for December.

<sup>2</sup> Puritan declared a distribution of \$.24 payable December 12, 2003, to shareholders of record on December 11, 2003, using a share value of \$17.88.

<sup>3</sup> Fidelity declared a distribution of \$.08 payable December 19, 2003, to shareholders of record on December 18, 2003, using a share value of \$27.53.

<sup>4</sup> Vanguard Institutional Index Fund declared a distribution of \$.48 payable December 23, 2003, to shareholders of record on December 22, 2003, using a share value of \$100.27.

<sup>5</sup> Acorn declared a distribution of \$.0201 payable December 5, 2003, to shareholders of record on December 4, 2003, using a share value of \$21.87.

<sup>6</sup> T. Rowe Price International Stock Fund declared a distribution of \$.16 payable December 17, 2003, to shareholders of record on December 16, 2003, using a share value of \$10.98.